

Department of Revenue Fiscal Note

| | | |
|-----------------------------|--------------------------------------|--|
| Bill Number: 5932 SB | Title: Sales and use tax rate | Agency: 140-Department of Revenue |
|-----------------------------|--------------------------------------|--|

Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

| Account | FY 2022 | FY 2023 | 2021-23 | 2023-25 | 2025-27 |
|---|---------|---------------|---------------|-----------------|-----------------|
| GF-STATE-State 01 - Taxes 01 - Retail Sales Tax | | (828,400,000) | (828,400,000) | (4,525,400,000) | (4,978,300,000) |
| GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax | | 4,100,000 | 4,100,000 | 22,600,000 | 24,800,000 |
| Performance Audits of Government Account-State 01 - Taxes 01 - Retail Sales Tax | | (1,330,000) | (1,330,000) | (7,250,000) | (7,980,000) |
| Total \$ | | (825,630,000) | (825,630,000) | (4,510,050,000) | (4,961,480,000) |

Estimated Expenditures from:

| | FY 2022 | FY 2023 | 2021-23 | 2023-25 | 2025-27 |
|----------------------|---------|---------|---------|---------|---------|
| FTE Staff Years | | 7.4 | 3.7 | 3.3 | 0.4 |
| Account | | | | | |
| GF-STATE-State 001-1 | 44,000 | 798,500 | 842,500 | 601,700 | 70,200 |
| Total \$ | 44,000 | 798,500 | 842,500 | 601,700 | 70,200 |

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact . Factors impacting the precision of these estimates , and alternate ranges (if appropriate) , are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☒ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia , complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia , complete this page only (Part I).
- ☒ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

| | | |
|-----------------------------------|------------------------|------------------|
| Legislative Contact: Alia Kennedy | Phone: 603-60-786-7405 | Date: 01/21/2022 |
| Agency Preparation: Erin Valz | Phone: 603-60-534-1522 | Date: 02/06/2022 |
| Agency Approval: Valerie Torres | Phone: 603-60-534-1521 | Date: 02/06/2022 |
| OFM Review: Cheri Keller | Phone: (603) 584-2207 | Date: 02/07/2022 |

Request # 5932-1-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill , and any related workload or policy assumptions , that have revenue or expenditure impact on the responding agency .

CURRENT LAW:

The state sales and use tax rate is 6.5%.

PROPOSAL:

This legislation decreases the state sales and use tax rate to 5.5%.

EFFECTIVE DATE:

This bill takes effect on January 1, 2023.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency , identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources . Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived . Explain how workload assumptions translate into estimates . Distinguish between one time and ongoing functions .

ASSUMPTIONS:

- Local sales tax revenues increase with the lower state sales tax rate due to the increase in taxable retail sales due to the lower tax rate (elasticity).
- There may be an increase in local sales tax revenues as a result of more room under the cap for local lodging sales tax rates.
- Currently, tribes with compacts under SHB 2803 (2020) receive a share of state sales tax from compact-covered areas. Under this proposal, it is assumed that compacting tribes will receive a reduction in their distribution amounts.
- This proposal may have a negative effect on state-shared taxes.
- This proposal impacts five months of collections in Fiscal Year 2023.

DATA SOURCES:

- Economic and Revenue Forecast Council, November 2021 forecast
- Department of Revenue excise tax return data

REVENUE ESTIMATES:

This decreases state revenues by an estimated \$825.6 million in the five months of impacted collections in Fiscal Year 2023, and by \$2,212.7 million in Fiscal Year 2024, the first full year of impacted collections. This bill also increases local revenues by an estimated \$25.1 million in the five months of impacted collections in Fiscal Year 2023, and by \$67.1 million in Fiscal Year 2024, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

| | |
|-----------|----------------|
| FY 2022 - | \$ 0 |
| FY 2023 - | (\$ 825,630) |
| FY 2024 - | (\$ 2,212,660) |
| FY 2025 - | (\$ 2,297,390) |
| FY 2026 - | (\$ 2,418,690) |
| FY 2027 - | (\$ 2,542,790) |

Local Government, if applicable (cash basis, \$000):

| | |
|-----------|------|
| FY 2022 - | \$ 0 |
|-----------|------|

| | |
|-----------|-----------|
| FY 2023 - | \$ 25,100 |
| FY 2024 - | \$ 67,100 |
| FY 2025 - | \$ 69,700 |
| FY 2026 - | \$ 73,400 |
| FY 2027 - | \$ 77,200 |

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing

ASSUMPTIONS:

This bill affects 250,000 taxpayers.

FIRST YEAR COSTS:

The Department will incur total costs of \$44,000 in Fiscal Year 2022. These costs include :

Object Costs - \$44,000.

- Computer system changes including contract programming.

SECOND YEAR COSTS:

The Department will incur total costs of \$798,500 in Fiscal Year 2023. These costs include :

Labor Costs – Time and effort equates to 7.4 FTEs.

- Set up, program and test computer system changes.
 - Process tax return work items, assist taxpayers with reporting questions and respond to inquiries via email and web message and paper correspondence.
 - Examine accounts and make corrections as necessary.
 - Gathering requirements, testing and implementation of new sales and use tax rate.
 - System testing and update scanning programming.
 - Implementation meetings, monitor reports, quality check and work review, prepare statistics, verify imaging, index data items, archive tax information and retrieve documents from archive.
 - Continued computer system testing, monitoring and maintenance.
 - Answer phone calls at the telephone information center on tax questions and tax return preparation from businesses, individuals, and accountants.
 - Increased stakeholder work, legal advice and interpretation arising during the implementation of the legislation.
 - Work with compacting tribes, to include estimating impacts as a result of this legislation.

Object Costs - \$23,700.

- Print and mail documents, correspondence and returns.
- Travel expenses.

ONGOING COSTS:

Ongoing costs for the 2023-25 Biennium equal \$601,700 and include similar activities described in the second-year costs. Time and effort equates to 3.25 FTEs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

| | FY 2022 | FY 2023 | 2021-23 | 2023-25 | 2025-27 |
|----------------------------------|-----------------|------------------|------------------|------------------|-----------------|
| FTE Staff Years | | 7.4 | 3.7 | 3.3 | 0.4 |
| A-Salaries and Wages | | 463,100 | 463,100 | 384,200 | 44,400 |
| B-Employee Benefits | | 166,700 | 166,700 | 138,300 | 16,000 |
| C-Professional Service Contracts | 44,000 | | 44,000 | | |
| E-Goods and Other Services | | 113,900 | 113,900 | 71,400 | 8,800 |
| G-Travel | | 3,000 | 3,000 | | |
| J-Capital Outlays | | 51,800 | 51,800 | 7,800 | 1,000 |
| Total \$ | \$44,000 | \$798,500 | \$842,500 | \$601,700 | \$70,200 |

III. B - Detail: *List FTEs by classification and corresponding annual compensation . Totals need to agree with total FTEs in Part I and Part IIIA*

| Job Classification | Salary | FY 2022 | FY 2023 | 2021-23 | 2023-25 | 2025-27 |
|---------------------------|---------|---------|------------|------------|------------|------------|
| EXCISE TAX EX 2 | 54,108 | | 2.5 | 1.3 | 1.4 | 0.3 |
| EXCISE TAX EX 3 | 59,688 | | 2.5 | 1.3 | 1.3 | 0.1 |
| EXCISE TAX EX 4 | 65,928 | | 0.1 | 0.1 | 0.1 | |
| FORMS AND RECORDS ANALYST | 45,504 | | 0.1 | 0.1 | | |
| 2 | | | | | | |
| IT SYS ADM-JOURNEY | 89,916 | | 0.2 | 0.1 | | |
| MGMT ANALYST4 | 70,956 | | 1.0 | 0.5 | 0.5 | |
| TAX INFO SPEC 1 | 43,392 | | 0.3 | 0.2 | | |
| TAX POLICY SP 3 | 82,344 | | 0.2 | 0.1 | | |
| TAX POLICY SP 4 | 88,644 | | 0.2 | 0.1 | | |
| WMS BAND 3 | 104,295 | | 0.3 | 0.2 | | |
| Total FTEs | | | 7.4 | 3.7 | 3.3 | 0.4 |

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

None.

Part V: New Rule Making Required

Request # 5932-1-1